

Iowa's Modified Biennial Budget Process

ISSUE

This *Issue Review* examines Iowa's modified biennial budget process that was initiated during the 2011 Legislative Session. The *Issue Review* looks at Iowa's last three biennial budget cycles and the budget adjustments that have been enacted. The report also includes information from other reports and studies on budgeting practices in other states as well as a brief explanation of the advantages and disadvantages of biennial budgeting.

BACKGROUND

A "true" biennial budget provides a single appropriation designed to fund a complete two-year period of department operations and programs. Currently, only two states, North Dakota and Wyoming, have true biennial budgets.¹ There are variations to the biennial budget process including states that provide a separate appropriation for each fiscal year of the biennium or, as is the case of Iowa, the second year of the biennium is only partially funded. A few states provide biennial funding for smaller state agencies while reserving annual budget decisions for larger departments and programs.

According to a report¹ published by the National Conference of State Legislatures (NCSL) in 2011, most states have transitioned away from biennial budgeting and have instead moved to adopting annual budgets. In 1940, 44 states enacted biennial budgets. Today only 19 states enact biennial budgets, a total of 20 if Iowa's modified biennial budget is included. The report also states that the shift to annual budgeting was largely the result of state legislatures moving from biennial to annual legislative sessions. The move away from biennial budgeting was due in large part to the increasing complexities of state budgets, and greater volatility in state revenues due to increasing reliance on sales tax and income tax revenues. **Attachments A and B** provide a list and map of states that use annual and biennial budgeting.

There are numerous reports and studies that have examined the advantages and disadvantages of biennial budgeting. From the studies reviewed for this *Issue Review*, there is no evidence to indicate specific advantages for either an annual or biennial budget process. Furthermore, these advantages or disadvantages are difficult to quantify due to the many facets involved in creating and enacting a budget. The variability in how states construct their budgets and the timing of legislative sessions may also factor into successfully implementing a biennial budget process. Below is a summary of the perceived advantages and disadvantages of the biennial budget cycle. It is important to note that the advantages and disadvantages cited in reports do not distinguish between a "true" biennial budget, where one appropriation is made covering a two-year period, and a biennial budget that is comprised of separate appropriations for each year of the biennium.

¹ Ron Snell, "State Experiences with Annual and Biennial Budgeting," National Conference of State Legislatures, April 2011, <http://www.ncsl.org/research/fiscal-policy/state-experiences-with-annual-and-biennial-budgeti.aspx>

Advantages of a Biennial Budget

- A “true” biennial budget, involving a single appropriation covering the two-year period, may reduce executive branch costs in terms of staff time and salaries as it relates to budget preparation. This may be the case for a “true” biennial budget because the process is more consolidated. However, biennial budgets comprised of separate appropriations for each year of the biennium, may be less cost-effective from an administrative perspective.
- Biennial budgeting is more conducive to long-term planning and allows more time for program review and evaluation by both the executive and legislative branches than annual budgeting.
- Biennial budgeting can make budgets more predictable over time. A biennial budget can require a longer commitment of funding and program policies than an annual budget.
- Biennial budgeting allows the legislative branch more time for deliberation and debate of non-budget issues during the non-budget sessions.²

Disadvantages of a Biennial Budget

- Biennial budgeting may increase the need for larger supplemental appropriations during year two of the biennium, requiring certain budget areas to be re-evaluated, thus using legislative time that could otherwise be used for budget performance review and evaluation.
- Revenue estimates in year two are less accurate, as significant changes in economic conditions can occur during the biennium. This could require policymakers to re-evaluate previously enacted priorities and result in additional revenue and appropriation adjustments in year two.
- The creation and administration of biennial budgets that use separate annual appropriations for each year of the biennium can be more time consuming than a traditional biennial budget, due not only to the additional data entry involved, but also the amount of planning and detail that generally needs to be considered by department personnel.
- Biennial budgets can be problematic because they involve working on a budget far in advance of the start of year two. For the second year of the two-year cycle, state agencies are required to begin developing budgets at least 28 months before the beginning of the fiscal year and 40 months before it ends. According to a report from the Center on Budget and Policy Priorities,³ during this intervening period some of the budgeting decisions concerning the effectiveness of some programs could become outdated. While the report focused on the congressional budget process, many of the same conditions apply to the states.

Another concern regarding legislatures with biennial budgets is that they have an increased potential to be called back into special session to revise the budget. However, information showing that biennial budget states call more special sessions than non-biennial budget states is inconclusive. The most complete data regarding the number of special sessions in all 50 states comes from NCSL. The NCSL data provides the number of special sessions called in all

² Glen Dickinson and Douglas Wulf, “Annual Versus Biennial Budgeting in the 50 States,” Legislative Fiscal Bureau, August 1996, <https://www.legis.iowa.gov/docs/publications/IR/944.pdf>

³ Richard Kogan, Robert Greenstein, and James R. Horney, “Biennial Budgeting: Do the Drawbacks Outweigh the Advantages,” Center on Budget and Policy Priorities, January 2012, <http://www.cbpp.org/research/biennial-budgeting-do-the-drawbacks-outweigh-the-advantages>

50 states over a 30-year period, from 1981 to 2010; however, the information does not specify the reason for the special sessions.

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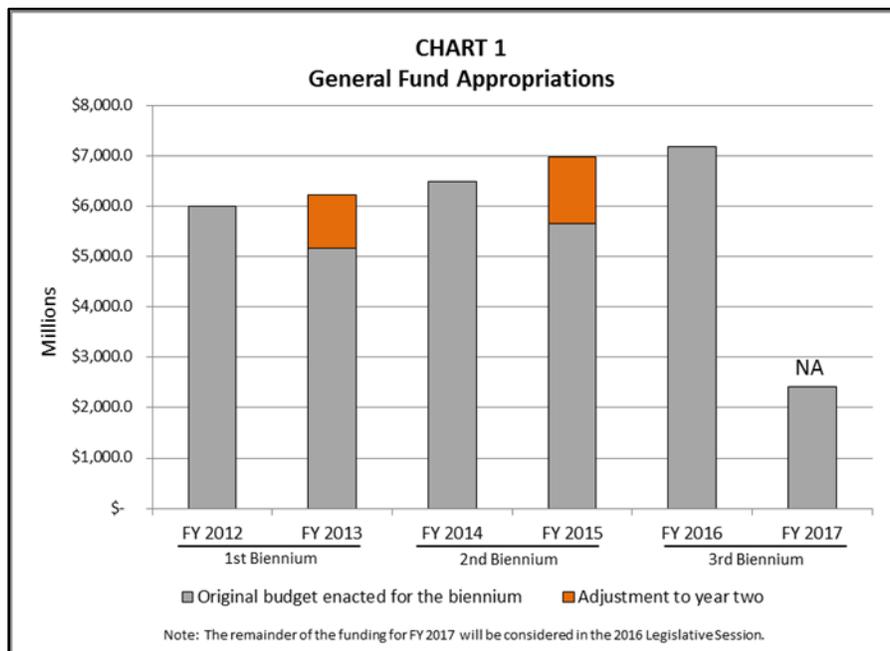
Prior to the 2011 Legislative Session, the last time Iowa passed a biennial budget was in 1981. The budget that was enacted provided funding for FY 1982 and FY 1983. In the following legislative session of 1982, the General Assembly made adjustments to both fiscal years that included supplemental appropriations totaling \$14.3 million for FY 1982 and \$45.4 million for FY 1983.⁴ The increase to the FY 1983 budget, year two of the biennium, amounted to a 2.2% increase in General Fund spending compared to the originally enacted budget for that year. In addition, of the total 280 individual line-item General Fund appropriations, 78 (27.9%) were adjusted during the 1982 Legislative Session. The following year, the Governor and General Assembly began budgeting on an annual basis. In 1986, the Iowa Code was formally amended to reflect the change from a biennial to an annual budget process.

During the 2011 Legislative Session, Iowa returned to biennial budgeting in response to a recommendation by Governor Branstad, who had recently been re-elected to office. For the three biennial budgets covered from FY 2012 to FY 2017, the Governor recommended budgets that fully fund state government in both fiscal years of each biennium. However, the General Assembly did not fully embrace the biennial budget concept, and through annual budget negotiations the Governor signed budget bills enacted by the General Assembly that provided for a modified or partial biennial budget process.

Iowa's modified biennial budget consists of a complete budget enacted for the first fiscal year of the biennium, and a partial budget for the second year. For year two of the biennium, state agency operating budgets are generally funded at 50.0% of the previous year's level. Programs that provide funding for local property tax replacement, the Medicaid Program, and State School Aid are usually fully funded at 100.0% or more of the previous year's level, although this can vary. For FY 2017, the General Assembly could not reach agreement on funding for State School Aid (which comprises over 40.0% of Iowa's General Fund budget), and also decided to appropriate Medicaid at 50.0% of the FY 2016 level. As a result, FY 2017 was funded at only 33.8% of the FY 2016 level.

Chart 1 shows the extent that year two was adjusted for the first and second biennial budgets enacted by the Iowa General Assembly and signed into law by the Governor. The third biennium shown on the chart is not yet complete. Unlike the FY 1983 biennial budget where 30.0% of the appropriations were adjusted, nearly every appropriation in year two of the biennium is adjusted under the new modified biennial budget process. The percentage of FY 2013 and FY 2015 appropriations that were adjusted was 92.0% and 94.0%, respectively.

⁴ Legislative Fiscal Bureau, "Appropriations Report 1981 – 1983 Biennium," June 1982, <https://www.legis.iowa.gov/docs/publications/FR/402013.pdf>



Biennial Budget Appropriations and Adjustments

Table 1 shows the dollar changes to General Fund appropriations for the fiscal years associated with Iowa's first and second modified biennial budgets. The table shows that for the first fiscal year of each biennium (FY 2012 and FY 2014), the budgets changed very little from the time the original budgets were adopted to when the fiscal years were closed out.

For FY 2013 and FY 2015 (the second year of each biennium), the original budgets were only partially funded, requiring significant revisions in the subsequent legislative sessions to fully fund state agencies and programs. The FY 2013 budget was originally appropriated \$5.156 billion. The FY 2013 budget included full funding for K-12 education and Medicaid, but funded most other programs (primarily state agency operating budgets) at 50.0% of the FY 2012 level. In the following 2012 Legislative Session, an additional \$1.067 billion was appropriated for FY 2013, a 20.7% increase compared to the original FY 2013 budget enacted in the previous legislative session.

Appropriations for the original FY 2015 budget totaled \$5.544 billion. In the following 2014 Legislative Session, an additional \$1.336 billion was appropriated for FY 2015, a 23.7% increase compared to the original FY 2015 budget.

Table 1 also shows that FY 2013 and FY 2015 budgets were appropriated additional increases in the 2013 and 2015 Legislative Sessions, respectively. The FY 2013 budget was increased by an additional 3.4% (\$212.0 million) in the 2013 Legislative Session and the FY 2015 budget was increased \$70.9 million in the 2015 Legislative Session. However, a significant portion of these increases were allowed to carry forward for expenditure in the subsequent fiscal years, indicating that these increases were more related to the budgets in FY 2014 and FY 2016.

As previously mentioned, the appropriations enacted for FY 2017 (\$2.423 billion) were only 33.8% of the FY 2016 level. The remainder of the FY 2017 budget will be addressed in the 2016 Legislative Session. Simply providing status quo funding for FY 2017 will require an additional \$4.749 billion, an increase of nearly 200.0% compared to the original FY 2017

budget. The final FY 2017 budget will likely be higher than FY 2016 due to increased costs associated with programs such as Medicaid, State School Aid, and property tax credits.

		Legislative Session	Approp.	Dollar Change	Percent Change
1st Biennium	FY 2012				
	Original Budget - Budget Fully Funded	2011	\$ 5,999.7		
	First Revision	2012	\$ 6,010.1	\$ 10.4	0.2%
	Year End Actual		\$ 6,012.5	\$ 2.4	0.0%
	FY 2013				
	Original Partial Budget	2011	\$ 5,156.0		
	First Revision - Budget Fully Funded	2012	\$ 6,222.6	\$ 1,066.6	20.7%
	Second Revision	2013	\$ 6,434.6	\$ 212.0 *	3.4%
	Year End Actual		\$ 6,431.7	\$ (2.9)	0.0%
2nd Biennium	FY 2014				
	Original Budget - Budget Fully Funded	2013	\$ 6,490.1		
	First Revision	2014	\$ 6,492.2	\$ 2.1	0.0%
	Year End Actual		\$ 6,482.6	\$ (9.6)	-0.1%
	FY 2015				
	Original Partial Budget	2013	\$ 5,643.9		
	First Revision - Budget Fully Funded	2014	\$ 6,979.4	\$ 1,335.5	23.7%
Second Revision	2015	\$ 7,050.3	\$ 70.9 **	1.0%	
Year End Actual		\$ 7,063.4	\$ 13.1	0.2%	
* Includes \$204.1 million in supplemental appropriations and \$7.9 million in year-end adjustments to standing appropriations.					
** Includes \$56.0 million in supplemental appropriations and \$23.0 million in year-end adjustments to standing appropriations.					

Biennial Budget Revenue Estimates

A concern often expressed about biennial budgets is that revenue estimates are less accurate in the out-years due to a greater chance of economic fluctuations. This concern has not been a significant issue in Iowa because the second year of the biennium is only partially funded, thereby lowering the risks of an unbalanced budget. When policymakers meet to make adjustments to appropriations in the second year they also have more current revenue estimates.

Prior to the 2015 Legislative Session, Iowa's statute relative to revenue estimating was not compatible with biennial budgeting. Iowa Code section [8.22A](#), requires the Revenue Estimating Conference (REC) to establish General Fund revenue estimates to accommodate an annual budget process. This includes estimates for the current fiscal year in progress and the fiscal year beginning the next July 1. The statute also requires the Governor and General Assembly

to use the REC estimates in the construction of their respective budgets and in the calculation of the state's expenditure limitation.

Because the REC did not provide an estimate for the second year of the biennium, an informal or unofficial estimate has been used. In practice, the Governor has included an unofficial estimate for year two of the biennium and the General Assembly has used this estimate in their budgets. In each of the three biennial budgets since 2011, the base General Fund revenue estimate for year two has included a 4.0% increase over the REC estimate used in year one. The base estimate of 4.0% is often modified due to revenue adjustments recommended in the Governor's budget as well as those adopted by the General Assembly.

Table 2 shows the revenue estimates used for Iowa's General Fund budgets of the first two bienniums. Assessing whether or not the year-two estimates are more or less accurate than the first year of each biennium is complicated by the enactment of law changes that impact revenues in the different legislative sessions. The table shows that the revenue estimates used in balancing the budgets for the second year of each biennium (i.e., FY 2013 and FY 2015) do not appear to be any more or less accurate than the estimates used for year one.

During the 2015 Legislative Session, the General Assembly enacted a provision in [SF 510](#) (Standing Appropriations Act) requiring the REC to provide an official estimate for the second year of each biennium, beginning in March 2016.

	Legislative Session	Net Receipts	Law Changes ¹	Total Revenue	Dollar Change	Percent Change	
1st Biennium	FY 2012						
	Original Budget	2011	\$ 6,188.9	\$ (196.5)	\$ 5,992.4		
	First Revision	2012	\$ 6,051.2	\$ 1.9	\$ 6,053.1	\$ 60.7	1.0%
	Year End Actual		\$ 6,311.1	\$ -	\$ 6,311.1	\$ 258.0	4.3%
	FY 2013						
	Original Budget (Non-REC Est)	2011	\$ 6,392.3	\$ (179.1)	\$ 6,213.2		
	First Revision	2012	\$ 6,280.6	\$ (27.3)	\$ 6,253.3	\$ 40.1	0.6%
	Second Revision	2013	\$ 6,661.8	\$ (25.2)	\$ 6,636.6	\$ 383.3	6.1%
	Year End Actual		\$ 6,768.7	\$ -	\$ 6,768.7	\$ 132.1	2.0%
2nd Biennium	FY 2014						
	Original Budget	2013	\$ 6,906.1	\$ (249.6)	\$ 6,656.5		
	First Revision	2014	\$ 6,682.2	\$ (2.4)	\$ 6,679.8	\$ 23.3	0.4%
	Year End Actual		\$ 6,489.1	\$ -	\$ 6,489.1	\$ (190.7)	-2.9%
	FY 2015						
	Original Budget (Non-REC Est)	2013	\$ 7,182.3	\$ (263.4)	\$ 6,918.9		
	First Revision	2014	\$ 6,983.2	\$ (19.6)	\$ 6,963.6	\$ 44.7	0.6%
	Second Revision	2015	\$ 6,767.4	\$ -	\$ 6,767.4	\$ (196.2)	-2.8%
Year End Actual		\$ 6,819.7	\$ -	\$ 6,819.7	\$ 52.3	0.8%	

¹ Net of vetoes.

CONCLUSION

States that transition to biennial budgets usually do so with the intent that it will improve fiscal stability by incorporating longer term planning into the budget process and provide an opportunity to review the effectiveness of state programs. However, there is little, if any, evidence to suggest that either annual budgeting or biennial budgeting is more advantageous. The success of a budget is more dependent on the quality of the enacted revenue policies and spending decisions than the process used for crafting a budget. The actual funding decisions of states are typically driven by external factors including such things as changing federal requirements, economic conditions, and environmental disasters. A well-planned, fiscally responsible budget can be implemented using either an annual or a biennial budget process. Fiscal decisions that result in sustainable revenue and spending policies, low debt obligations, and sufficient reserve fund balances can be implemented regardless of the budget process that is used by policy-makers.

The benefits of biennial budgeting listed in this *Issue Review* do not necessarily apply to Iowa, largely due to the number of adjustments that are required in year two of the biennium. More than 90.0% of the line-item appropriations in the second year of each biennium are adjusted. This requires legislative budget committees to reassess the budgets of nearly all state agencies and programs. For this reason, the budget process in year two has very similar characteristics to an annual budget process. Additionally, it is unclear that Iowa's modified biennial budget has had either a positive or negative impact on the state's fiscal stability.

Iowa has consistently maintained a reputation of being a financially well-managed state year after year. Iowa has been recognized as one of the best financially managed states in the country. According to a list of Standard and Poor's (S&P) state credit ratings, Iowa has annually received a AAA rating since 2008.⁵ The ratings issued by the S&P take into account a state's ability to pay debts and the general health of the state's economy. A higher credit rating is indicative of lower interest costs on bonds issued by a state or its institutions in order to finance large-scale infrastructure projects. This in turn results in lower interest costs, thereby lowering the cost to taxpayers. Standard and Poor's grades range from AAA, the highest available, to BBB, the lowest.

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⁵ Pamela M. Prah, Adam Rotmil, and Stephen C. Fehr, "Infographic: S&P State Credit Ratings, 2001-2014," Pew Charitable Trust, June 9, 2014, <http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2014/06/09/sp-ratings-2014>

ATTACHMENT A

Annual and Biennial Budgeting States

Annual Session Annual Budget (31 States)	Annual Session Biennial Budget (15 States)	Biennial Session Biennial Budget (4 States)
Arizona+	Connecticut	Montana
Alabama	Hawaii	Nevada
Alaska	Indiana	North Dakota*
Arkansas	Kentucky	Texas
California	Maine	
Colorado	Minnesota	
Delaware	Nebraska	
Florida	New Hampshire	
Georgia	North Carolina	
Idaho	Ohio	
Illinois	Oregon	
Iowa^	Virginia	
Kansas+	Washington	
Louisiana	Wisconsin	
Maryland	Wyoming*	
Massachusetts		
Michigan		
Mississippi		
Missouri		
New Jersey		
New Mexico		
New York		
Oklahoma		
Pennsylvania		
Rhode Island		
South Carolina		
South Dakota		
Tennessee		
Utah		
Vermont		
West Virginia		

*Biennial budget states that enact a consolidated two-year budget. Other biennial budget states enact two annual budgets at one time.

+Annual budget states where smaller agencies receive biennial budgets.

^Since 2011, Iowa has used a modified biennial budget where the second year of the bienium is only partially funded.

